



FOOD AND NUTRITION SERVICE

Food Stamp Program Benefit Redemption Division



Annual Report
FY 2005

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Introduction

This annual report contains information on the activities conducted by the Benefit Redemption Division of the Food Stamp Program. It also reports on the Food Stamp Program retailer related activities of regional offices and field offices of the Food and Nutrition Service.

The **Benefit Redemption Division (BRD)** consists of four branches:

- The **Electronic Benefit Transfer Branch (EBT)** is responsible for issuance related policies related to the Food Stamp Program;
- The **Retailer Management Branch (RMB)** is responsible for policies related to the participation of firms in the Food Stamp Program, the eligibility of foods that can be bought with Food Stamp benefits, and operational oversight of retailer related activities;
- The **Retailer Investigations Branch (RIB)** is responsible for conducting investigations of firms to ensure they are complying with Program rules;
- The **Administrative Review Branch (ARB)** is responsible for hearing appeals by firms of actions taken by the agency to enforce compliance with regulations.



Overview from the Director

As I look over the accomplishments of the Benefit Redemption Division for Fiscal Year 2005, I am again impressed at the volume and quality of work completed. It was a huge transition year as many key Division positions were filled, including mine. These vacancies may have created some difficulties but staff stepped up to the challenge with great enthusiasm and energy, and continued to produce.

Although there is a long list of accomplishments for FY 2005, I would like to mention just a few that have made a difference to many staff both here in headquarters and in the field. The other accomplishments, although no less important to the Division mission, will be covered in later chapters.

The aftermath of hurricanes Katrina and Rita had a major impact on the workload of the Division and affected regions during the last quarter of the fiscal year. The Agency received a favorable public response to our efforts. In BRD and the Field, our success was the result of a team effort: those staff working directly on hurricane priorities as well as those that supported this effort by continuing to do the other important work that needed to be accomplished. Our retailer and EBT policies and operations were adjusted to meet the needs of the victims as much as possible during the critical times. Our work on the hurricane effort continued into FY 2006.

From the retailer side, the new web-based retailer management system (STARS) was implemented and the evaluation of the training effort was completed. The responses provided by staff have given us great insight for planning future training endeavors, some

of which have already been put in place. We now understand how staff would like to be taught, and where we can improve our efforts. In addition, since the implementation, there have been six STARS maintenance releases in response to staff recommendations for system improvements. The system continues to evolve and we look to users to provide comments whenever they find a “glitch” or think of a better way to capture and track retailer information.

The issuance staff remained busy with EBT re-procurements. They also issued the most recent release of our ALERT system, which identifies potential fraudulent stores, provides a prototype of a mapping feature to plot the location of stores, features the ability to run reports for more than one month, and adds changes to the manual voucher scan. We will be bringing in some of the lessons learned from the STARS training experience into the ALERT system training to ensure that staff understand and use the new features in ALERT as easily and effectively as possible.

Our investigators completed just under 4,800 investigations in FY 2005. While this was a slight reduction from FY 2004, this was accomplished with fewer investigators as a result of staff departures. Approximately 39% of the stores were found to be violating the Program regulations. The investigators continue to do a great job for the agency and the public.

The retailer appeals staff, with some assistance from Division and regional staff, was able to reduce the backlog of cases significantly this past year. They reviewed more than 650 appeals from retailers who believed they were unjustly found in

Overview from the Director

violation of Program regulations. They continue to review their internal operations to look for ways to provide as timely a response as possible to the retailers.

I want to take this opportunity to thank the regional and field staff for their insight and hard work in helping us to achieve so much this year. As with each year, our work could not be accomplished without their invaluable assistance.

Jeff Cohen
Director
Benefit Redemption Division

Retailer Management Branch

For the second year, the number of retail firms licensed to participate in the Food Stamp Program has increased significantly. Over 160,000 firms are now authorized, up from 145,000 just two years ago.

The Retailer Management Branch provides policy and operational support to more than 50 local Field locations operating under the auspices of Field Operations in 7 Regions. Local Field Offices are charged with the authorization, administration, reauthorization, and monitoring of firms participating in the Food Stamp Program.

RMB is responsible for:

- providing retailer management parameters through legislation, regulation, policy, and operating guidance
- disseminating and ensuring that regulations, policy and procedure are consistently applied
- managing store visit contracts utilized by local Field Offices
- developing and managing forms, publications, and training materials
- developing and maintaining the primary retailer management system [Store Tracking and Redemption System (STARS)]
- leading development and handling maintenance of the Benefit Redemption Division intranet site
- providing retailer-related information and materials to the FNS extranet

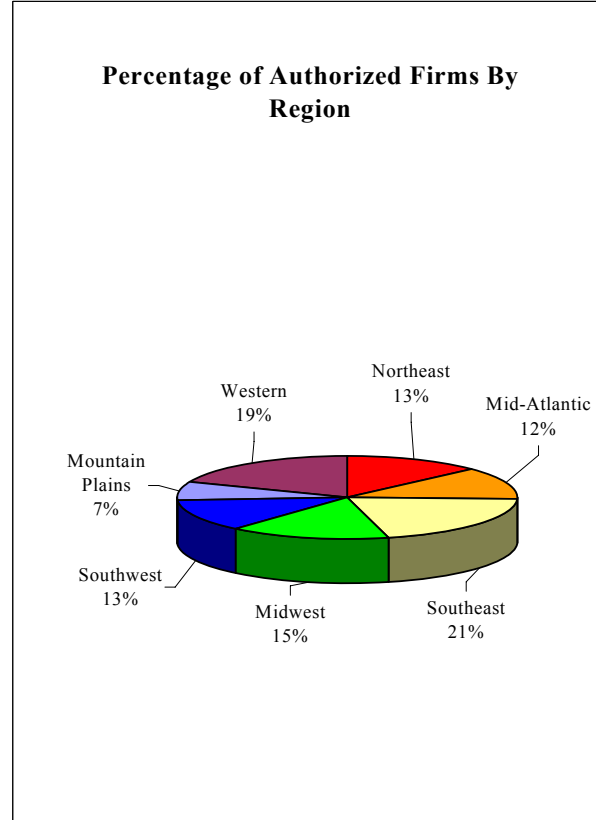
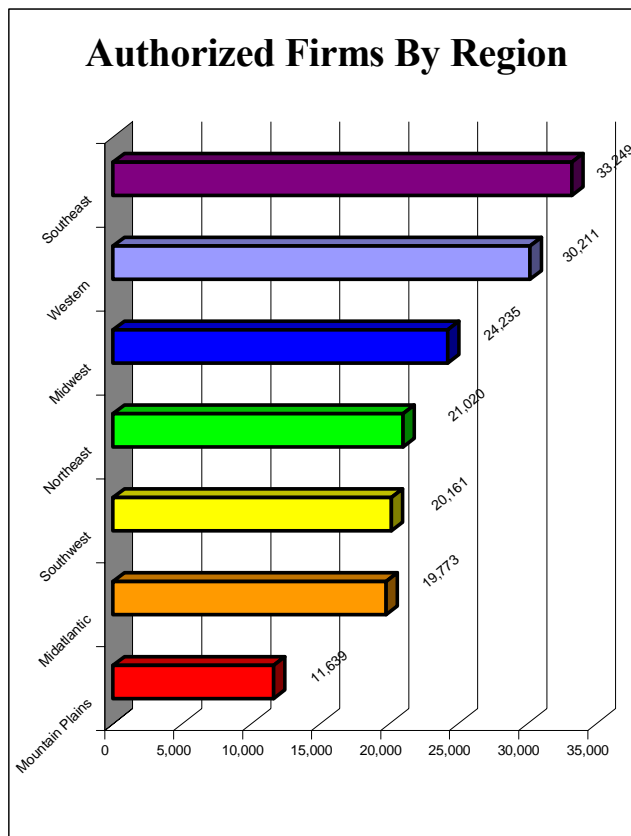
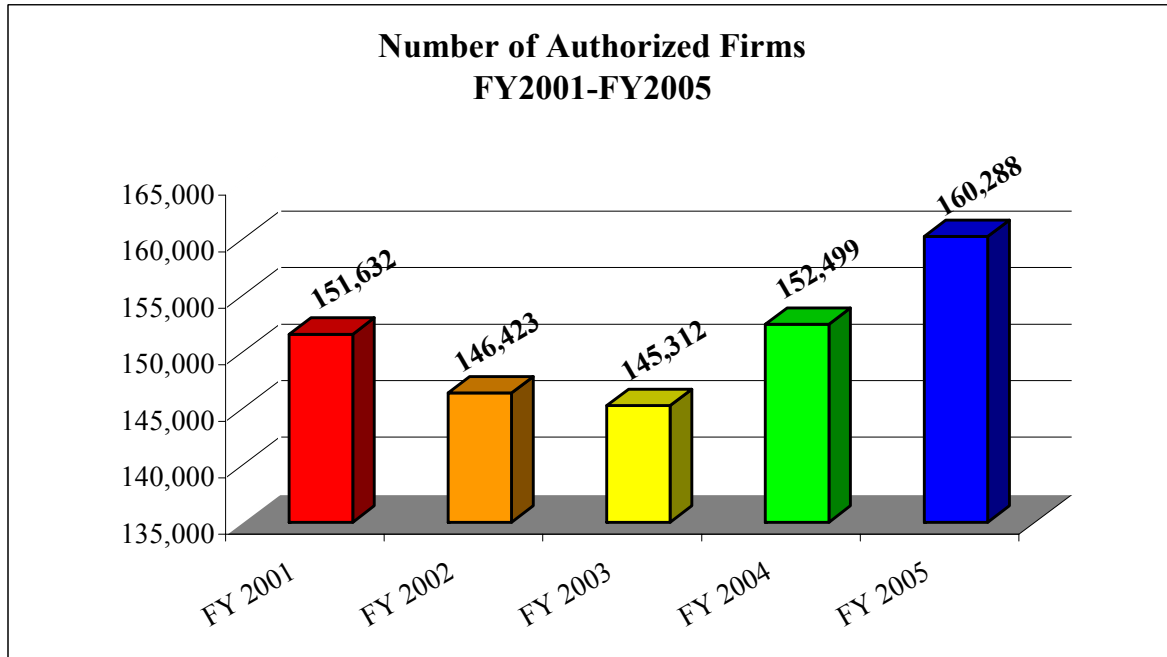
- facilitating Program outreach through the licensed FSP retailer base
- managing Program-wide OIG whistleblower complaints

Local FNS field offices are unique in that they provide direct service to both applicant and licensed retailers. The RMB functions listed are carried out in concert with Field Operations staff.



Firm Characteristics

On September 30, 2005, there were **160,288** firms authorized to accept food stamp benefits. The number of firms authorized on the Food Stamp Program continues to rise.



Source: STARS Management Activity Report 12/04/05

Firm Characteristics

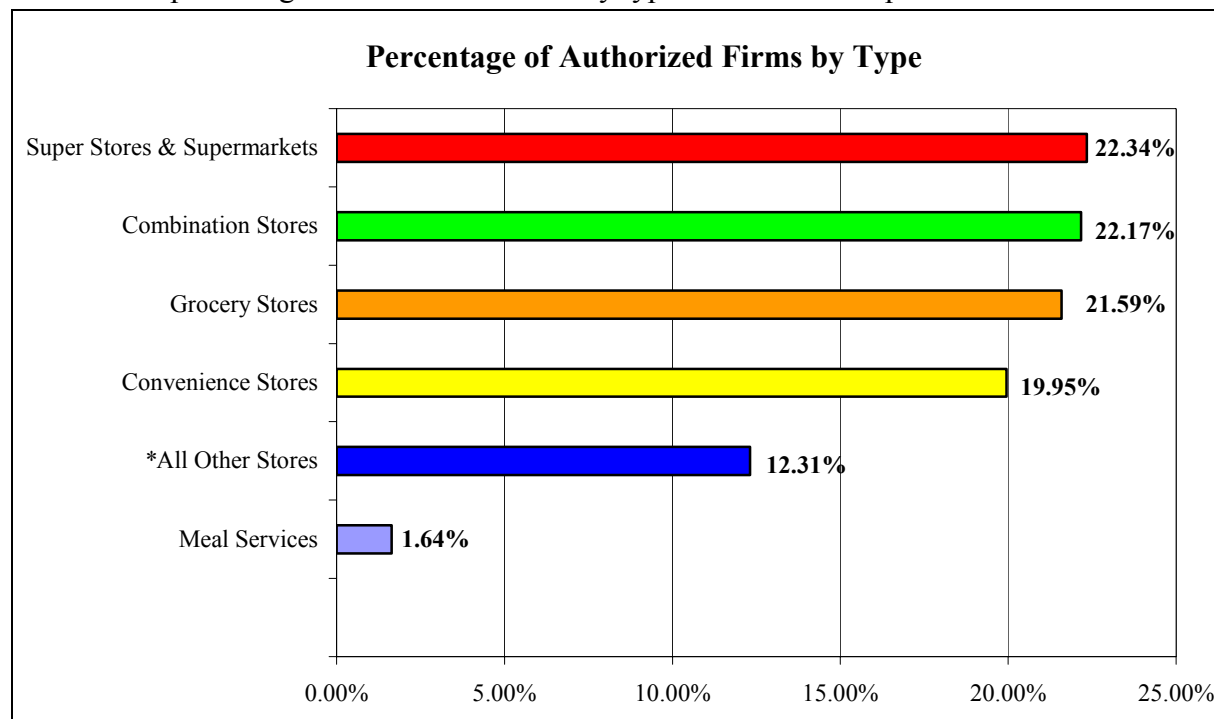
Firms are classified by type. There are currently 31 types used to categorize these firms. Below are the authorized firms by type and region in FY 2005:

Firm Types	NERO	MARO	SERO	MWRO	SWRO	MPRO	WRO	Total
Super Store	24	55	1	36	22	0	2	140
Supermarket	3,627	4,046	8,126	6,228	3,856	2,947	6,833	35,663
Medium or Small Grocery	8,387	5,217	4,363	4,627	3,267	1,851	6,898	34,610
Convenience Store	2,890	3,260	6,775	3,427	6,186	2,228	7,216	31,982
Combination Grocery/Gas Station	1,038	2,009	4,217	3,652	1,349	1,268	2,273	15,806
Combination Grocery/Bar	0	23	8	5	2	2	12	52
Combination Grocery/Restaurant	38	115	149	71	280	72	112	837
Combination Grocery/Merchandise	341	1,231	3,546	919	2,088	945	536	9,606
Other Combination	1,316	1,584	1,357	2,345	895	429	1,306	9,232
Farmer Market	63	66	35	16	6	41	144	371
Produce Stand	175	255	492	187	138	112	367	1,726
Wholesaler	2	6	24	1	0	4	1	38
Specialty Food	1,850	1,282	2,222	1,689	1,623	890	1,947	11,503
Health or Natural Food Store	218	126	127	123	33	126	223	976
Non-Profit Food buying Co-op	57	28	33	29	17	37	25	226
Military Commissary	12	28	50	9	26	16	47	188
Other Firm	67	82	212	38	66	184	625	1,274
Milk Route	9	7	1	6	4	11	5	43
Bread Route	2	1	2	0	2	1	5	13
Produce Route	2	16	13	3	6	2	9	51
Other Route	58	80	128	170	118	120	84	758
Wholesaler/Co-located Retailer	0	3	6	7	1	0	2	19
Drug Store	358	25	1,032	206	11	7	902	2,541
Communal Dining Facility	74	50	79	149	47	150	46	595
Meal Delivery Service	40	31	29	77	44	55	15	291
Drug and/or Alcohol Treatment Program	206	82	116	96	56	85	374	1,015
Senior Citizens' Center/Residential Building	4	0	0	6	0	1	1	12
Private Restaurant/M Meal Delivery	0	0	0	5	1	0	122	128
Group Living Arrangement	138	45	93	92	6	40	44	458
Homeless Meal Provider	14	20	13	16	11	15	31	120
Shelter for Battered Women and Children	10	0	0	0	0	0	4	14
Totals	21,020	19,773	33,249	24,235	20,161	11,639	30,211	160,288

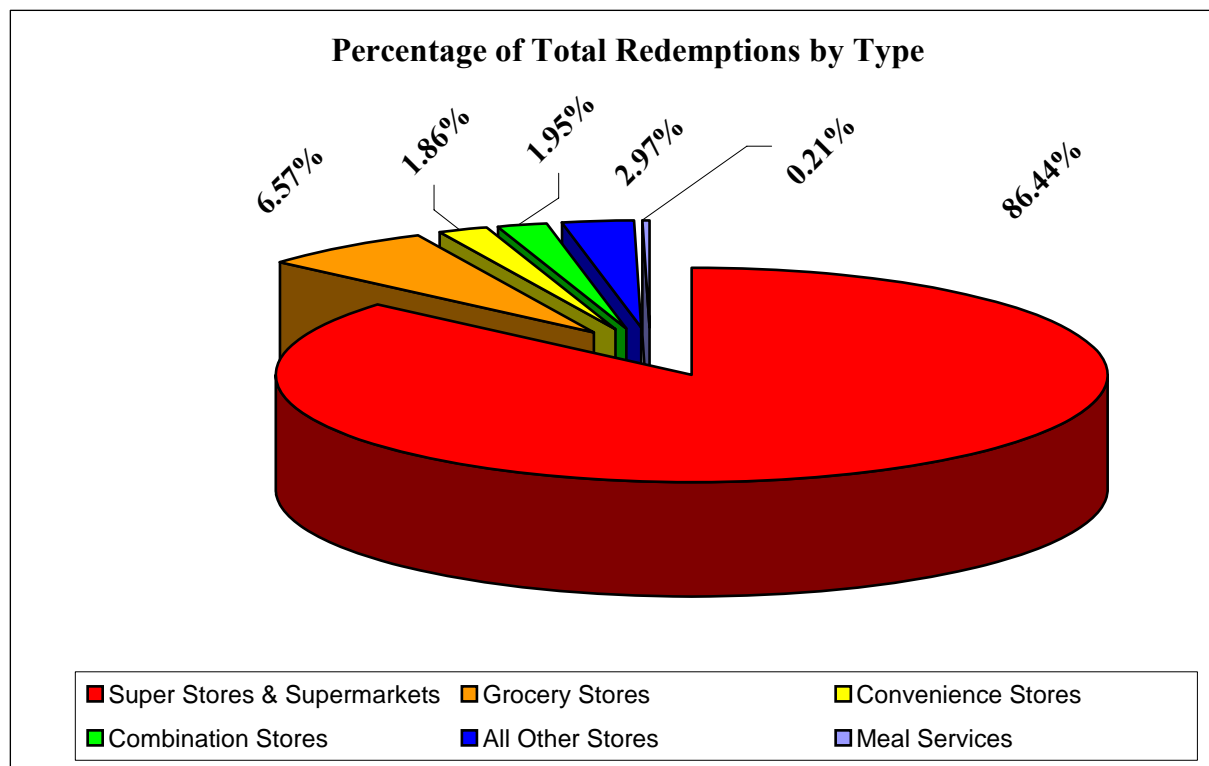
Source: STARS Management Activity Report 12/04/05

Firm Characteristics

Below are percentages of authorized firms by type and total redemptions.



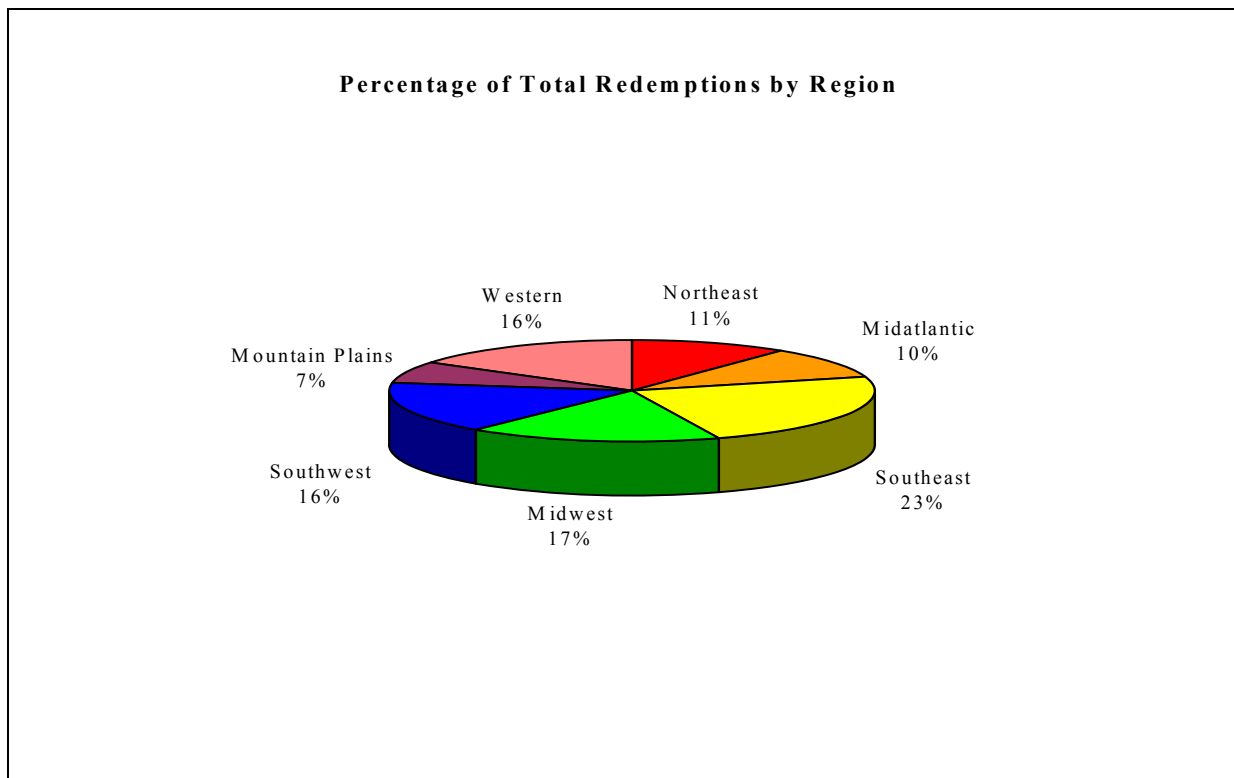
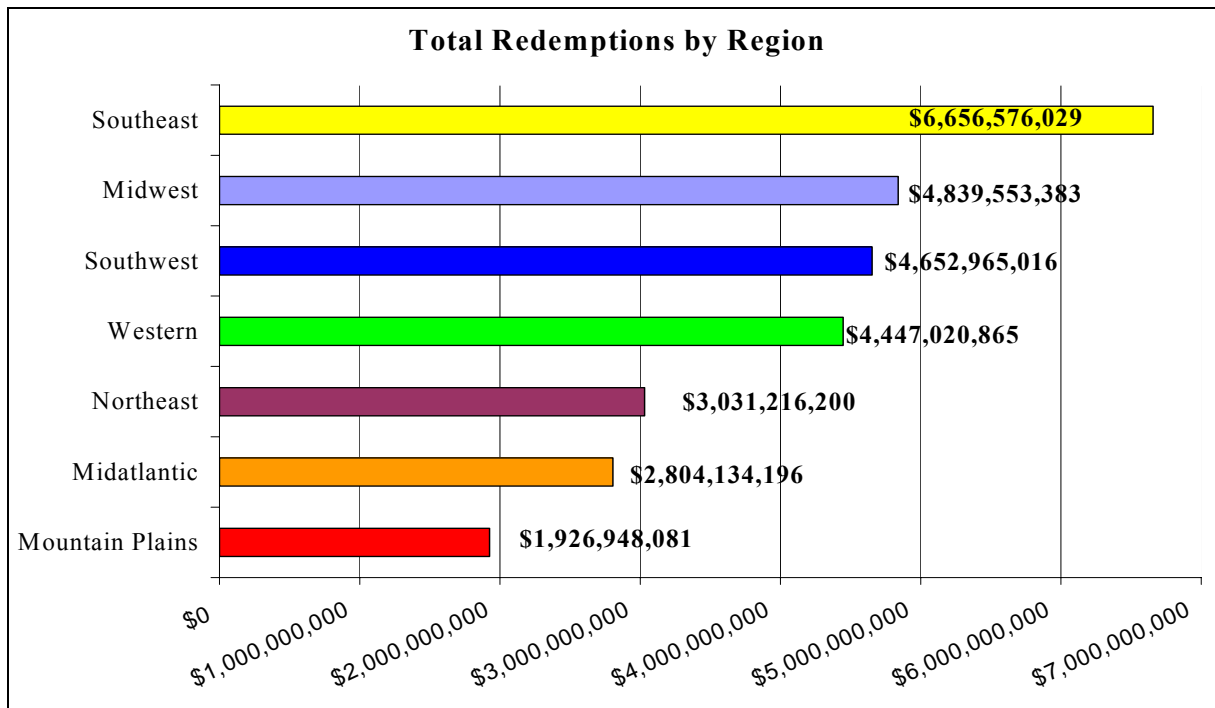
*This type includes Farmers Markets, Produce Stands, Wholesalers, Co-located Retailers, Drug Stores, Specialty Food Stores, Health/Natural Food Stores, Non-Profit Food Buying Co-ops, Military Commissaries, and Routes.



Source: STARS Management Activity Report 12/04/05

Firm Characteristics

Firms redeemed \$28,358,413,771 in food stamp benefits in FY2005.



Source: STARS Management Activity Report 12/04/05

Firm Characteristics

The following shows the number of authorized firms and total redemptions by state. California, Texas, and New York redeem the largest volume of benefits.

Region Name	State Name	Number of Authorized Firms	Total Redemption Amount
Northeast	Connecticut	1,498	\$220,852,443
	Maine	1,242	\$157,271,381
	Massachusetts	2,927	\$360,870,757
	New Hampshire	543	\$61,361,674
	New York*	13,593	\$2,120,739,708
	Rhode Island	778	\$75,244,641
	Vermont	439	\$34,875,597
Regional Totals		21,020	\$3,031,216,200
Mid-Atlantic	Delaware	407	\$67,563,457
	District of Columbia	358	\$65,263,923
	Maryland	2,270	\$358,303,574
	New Jersey	3,857	\$442,793,512
	Pennsylvania	7,165	\$1,099,607,108
	Virgin Islands	121	\$20,760,258
	Virginia	3,732	\$507,617,424
	West Virginia	1,863	\$242,224,940
Regional Totals		19,773	\$2,804,134,196
Southeast	Alabama	2,939	\$607,208,965
	Florida	8,345	\$1,604,584,307
	Georgia	5,137	\$1,047,105,199
	Kentucky	3,441	\$616,575,412
	Mississippi	2,544	\$447,690,002
	North Carolina	4,379	\$857,041,368
	South Carolina	2,481	\$565,868,537
	Tennessee	3,983	\$910,502,239
Regional Totals		33,249	\$6,656,576,029
Midwest	Illinois	6,153	\$1,384,705,877
	Indiana	2,921	\$637,880,336
	Michigan	5,804	\$1,085,052,725
	Minnesota	2,024	\$262,956,000
	Ohio	5,259	\$1,152,262,740
	Wisconsin	2,074	\$316,695,706
Regional Totals		24,235	\$4,839,553,383

Firm Characteristics

Region Name	State Name	Number of Authorized Firms	Total Redemption Amount
Southwest	Arkansas	1,679	\$404,312,032
	Louisiana	3,857	\$907,552,736
	New Mexico	1,070	\$249,076,728
	Oklahoma	2,477	\$432,583,788
	Texas*	11,078	\$2,659,439,732
Regional Totals		20,161	\$4,652,965,016
Mountain Plains	Colorado	1,517	\$313,522,040
	Iowa	2,155	\$223,486,533
	Kansas	1,287	\$181,352,070
	Missouri	3,204	\$730,690,657
	Montana	623	\$87,467,854
	Nebraska	812	\$121,649,888
	North Dakota	432	\$45,633,849
	South Dakota	556	\$58,029,447
	Utah	811	\$137,510,677
	Wyoming	242	\$27,605,066
Regional Totals		11,639	\$1,926,948,081
Western	Alaska	472	\$79,426,873
	Arizona	2,652	\$620,432,074
	California*	18,794	\$2,322,227,539
	Guam	219	\$53,389,641
	Hawaii	854	\$156,035,893
	Idaho	558	\$103,472,583
	Nevada	904	\$134,493,847
	Oregon	2,384	\$441,007,407
	Washington	3,374	\$536,535,009
Regional Totals		30,211	\$4,447,020,865
National Totals		160,288	\$28,358,413,771

Firm Characteristics

The following shows total redemptions by firm type for FY 2005. Supermarkets redeem over 86% of all food stamp benefits.

Firm Type	Total Redemption Amounts	Percent Totals	Authorized Firms	Percent Totals
Bread Route	\$297,909	0.00%	13	0.01%
Combination Grocery/Bar	\$690,607	0.00%	52	0.03%
Combination Grocery/Gas Station	\$239,864,669	0.85%	15,806	9.86%
Combination Grocery/Merchandise	\$167,674,349	0.59%	9,606	5.99%
Combination Grocery/Restaurant	\$16,049,676	0.06%	837	0.52%
Convenience Store	\$527,979,652	1.86%	31,982	19.95%
Drug Store	\$6,591,074	0.02%	2,541	1.59%
Farmers Market	\$2,891,418	0.01%	371	0.23%
Health or Natural Food Store	\$17,966,819	0.06%	976	0.61%
Medium or Small Grocery	\$1,863,621,124	6.57%	34,610	21.59%
Military Commissary	\$23,646,950	0.08%	188	0.12%
Milk Route	\$1,686,149	0.01%	43	0.03%
Non-Profit Food Buying Co-op	\$6,816,976	0.02%	226	0.14%
Other Combination	\$127,578,155	0.45%	9,232	5.76%
Other Firm	\$49,587,600	0.17%	1,274	0.79%
Other Route	\$55,448,052	0.20%	758	0.47%
Produce Route	\$428,222	0.00%	51	0.03%
Produce Stand	\$38,575,902	0.14%	1,726	1.08%
Specialty Food	\$634,869,742	2.24%	11,503	7.18%
Super Store	\$7,812,634	0.03%	140	0.09%
Supermarket	\$24,505,368,043	86.41%	35,663	22.25%
Wholesaler/Co-located Retailer	\$3,389,171	0.01%	19	0.01%
Wholesalers	\$1,098,697	0.00%	38	0.02%
Subtotal	\$28,299,933,590	99.79%	157,655	98.35%
MEAL SERVICES:				
Communal Dining Facility	\$2,501,113	0.01%	595	0.37%
Drug and/or Alcohol Treatment Program	\$36,450,443	0.13%	1,015	0.63%
Group Living Arrangement	\$15,911,501	0.06%	458	0.29%
Homeless Meal Provider	\$2,338,035	0.01%	120	0.07%
Meal Delivery Service	\$196,704	0.00%	291	0.18%
Private Restaurant/M Meal Delivery	\$981,592	0.00%	128	0.08%
Senior Citizens' Center/Residential Building	\$47,149	0.00%	12	0.01%
Shelter for Battered Women and Children	\$53,644	0.00%	14	0.01%
Meal Services Subtotal	\$58,480,182	0.21%	2,633	1.64%
Totals	\$28,358,413,771	100.00%	160,288	100.00%

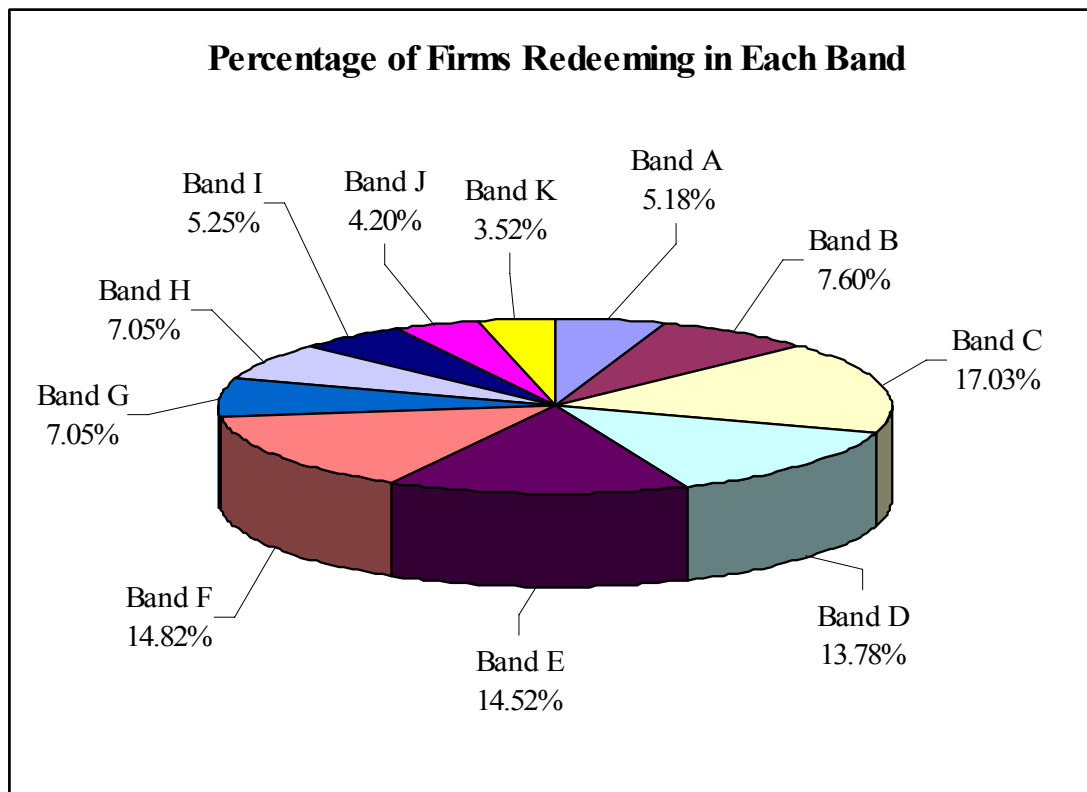
Source: STARS Management Activity Report 12/04/05

Firm Characteristics

Redemption Levels

Bands illustrate average monthly redemption ranges among authorized firms. Seventy percent of firms redeem more than \$500 per month. Less than 4% of all firms redeem more than \$100,000.

Redemption Levels	Number of Firms	Percent of Firms	Average Monthly Redemption Ranges
Band A	8,301	5.18%	\$0.00
Band B	12,185	7.60%	\$0.01 to \$99.99
Band C	27,292	17.03%	\$100.00 to \$500.00
Band D	22,079	13.78%	\$501.00 to \$1,000.00
Band E	23,271	14.52%	\$1,001.00 to \$2,000.00
Band F	23,752	14.82%	\$2,001.00 to \$5,000.00
Band G	11,305	7.05%	\$5,001.00 to \$10,000.00
Band H	11,305	7.05%	\$10,001.00 to \$25,000.00
Band I	8,422	5.25%	\$25,001.00 to \$50,000.00
Band J	6,730	4.20%	\$50,001.00 to \$100,000.00
Band K	5,646	3.52%	\$100,001.00 and more
Total	160,288	100%	



Source: STARS Management Activity Report 12/04/05

Authorization and Administration Activity

Store authorization and administration includes, but is not limited to, authorizing, reinstating, and reauthorizing firms. This activity is shown below.

Fiscal Year	New Firm Authorizations By Region FY2001-FY2005							Total New Authorizations
	NERO	MARO	SERO	MWRO	SWRO	MPRO	WRO	
FY 2001	2,943	2,362	3,641	2,770	2,314	884	2,990	17,904
FY 2002	2,430	2,054	3,357	2,150	2,169	951	3,228	16,339
FY 2003	2,736	2,059	3,289	2,399	1,884	1,084	3,670	17,121
FY 2004	3,159	2,602	6,399	3,470	3,538	1,518	3,972	24,658
FY 2005	2,957	2,708	5,458	3,371	2,937	1,325	4,836	23,592

Region	New Authorizations	Reinstated	Reauthorized	Total
NERO	2,957	138	3,915	7,010
MARO	2,708	102	4,234	7,044
SERO	5,458	205	8,082	13,745
MWRO	3,371	167	5,321	8,859
SWRO	2,937	137	2,163	5,237
MPRO	1,325	101	2,131	3,557
WRO	4,836	191	3,780	8,807
Totals	23,592	1,041	29,626	54,259

Source: STARS Management Activity Report 12/04/05

Monitoring Activity

SEAR

The Store Eligibility Accuracy Rate (SEAR) is a measure of how well FNS is doing in ensuring that only stores that meet the Food Stamp Program's eligibility criteria accept food stamps. SEAR takes place during a two-month period each year. Data is collected on a nationwide, randomly selected, statistically valid sample of stores.

To date there have been six SEAR measurements, Fiscal Years 1999 through 2004. SEAR was not done in FY 2005 due to continued phased implementation of STARS. However, following are national SEAR results for the five prior years:

Fiscal Year	Number of Authorized Firms	% Eligible	% Ineligible
2000	157,353	98.52%	1.48%
2001	151,709	98.90%	1.10%
2002	146,423	99.13%	0.87%
2003	145,312	99.24%	0.76%
2004	152,499	98.83%	1.17%

Source: Annual SEAR Reports

Activity Tracking

Withdrawals

In FY 2005, the number of firms withdrawn from the FSP totaled 16,827.

REASON FOR REMOVAL FROM FSP			
Region	Voluntary Withdrawal	Involuntary Withdrawal	Total
Northeast	1,764	591	2,758
Mid-Atlantic	1,658	272	2,077
Southeast	3,388	380	4,116
Midwest	1,687	195	2,104
Southwest	1,736	166	2,042
Mountain Plains	780	15	832
Western	2,584	147	2,898
Totals	13,597	1,766	16,827

Source: STARS Management Activity Report 12/04/05

Voluntary Withdrawal: Generally occurs due to changes in store ownership, changes in the nature of the business, or firm closings.

Involuntary Withdrawal: Occurs when FNS determines that a store no longer meets the basic eligibility requirements for authorization, or because the store had no redemption activity.

Activity Tracking

Sanction and Compliance Actions

Sanction Actions: include permanent and non-permanent (term) disqualification actions, hardship, and trafficking civil money penalties (CMP)

Compliance Actions: include all sanction actions as well as official warning letters

Region	Permanent Disqualification	Non-Permanent (term) Disqualification	Hardship or Trafficking CMP	Total Sanction Actions	Official Warning	Total Compliance Actions
NERO	200	226	9	435	156	591
MARO	78	82	12	172	70	242
SERO	218	141	54	413	154	567
MWRO	186	56	16	258	166	424
SWRO	69	75	16	160	164	324
MPRO	17	22	8	47	77	124
WRO	73	101	38	212	183	395
Totals	841	703	153	1,697	970	2,667

Source: STARS Management Activity Report 12/04/05

Other:

◦ **Transfer of Ownership (sale of store) civil money penalties: 72**

A transfer of ownership civil money penalty (TOCMP) is imposed against an owner who sells his/her store prior to completion of a disqualification period or payment in full of a hardship or trafficking CMP. TOCMP actions are not shown in the above chart as they are assessed subsequent to the disqualification or assessment of a CMP; the disqualification or CMP action would have been counted when it became final.

◦ **Fines for Unauthorized Acceptance of Food Stamp Benefits: 5**

An unauthorized acceptance fine is assessed against retailers who are not authorized to participate in the FSP. These unauthorized retailers are liable for benefits redeemed without a license; these compliance actions are not included in the above chart.

◦ **Fiscal Claims: 14**

Fiscal claims allow FNS to recover the cost of ineligible items sold for benefits, and food stamp benefits that have been trafficked. Fiscal claims are assessed in addition to a disqualification or CMP; therefore, they are not included in the chart above.

Activity Tracking

Civil Money Penalties

A Civil Money Penalty (CMP) is imposed against an authorized firm in lieu of disqualification or against a disqualified owner who sells his/her store before the expiration of the disqualification period. FNS collected \$1.69M in civil money penalties in FY2005. There are three different types of CMPs:

A. Hardship

A hardship CMP is imposed in place of disqualification when a disqualification would cause a hardship, not just an inconvenience, to recipients.

B. Trafficking

A trafficking CMP is imposed in lieu of permanent disqualification if a firm meets specific criteria relative to owner/manager involvement in violations, and employee training.

C. Transfer of Ownership

A transfer of ownership CMP is imposed against an owner who sells his/her store prior to completion of a disqualification period or payment in full of a hardship or trafficking CMP.

CMPs Established during FY2005

Hardship CMP

	CMPs Established	CMP Amounts Assessed
Northeast	9	\$35,602.21
Mid-Atlantic	12	\$51,582.00
Southeast	54	\$288,608.60
Midwest	15	\$41,072.00
Southwest	16	\$73,108.66
Mountain Plains	8	\$21,113.80
Western	36	\$199,571.77
Totals	150	\$710,659.04

Trafficking CMP

	CMPs Established	CMP Amounts Assessed
Northeast	0	\$0.00
Mid-Atlantic	0	\$0.00
Southeast	0	\$0.00
Midwest	1	\$15,000.00
Southwest	0	\$0.00
Mountain Plains	0	\$0.00
Western	2	\$21,201.53
Totals	3	\$36,201.53

Transfer of Ownership CMP

	CMPs Established	CMP Amounts Assessed
Northeast	18	\$1,006,235.00
Mid-Atlantic	9	\$151,442.00
Southeast	7	\$166,707.82
Midwest	24	\$735,365.00
Southwest	4	\$96,664.00
Mountain Plains	0	\$0.00
Western	10	\$395,200.00
Totals	72	\$2,551,613.82

Source: STARS Management Activity Report
12/04/05

Retailer Investigations Branch

The Office of the Inspector General (OIG) has responsibility for all investigative activity in the U.S. Department of Agriculture (USDA). However, authority to conduct retailer compliance investigations within the Food Stamp Program was delegated to the Food and Nutrition Service (FNS). In January 1977, the Retailer Investigations Branch (RIB), formerly named the Compliance Branch (CB), was formed to carry out the investigative function within FNS.

Organizationally, RIB is part of the FSP headquarters office. RIB has four (4) out-stationed Area Offices (located in Chicago, Dallas, Memphis and Trenton), each managed by a Supervisory Investigator-in-Charge.

Investigations are conducted by a nationwide staff of investigators. All RIB investigators receive professional training at the Federal Law Enforcement Training Center at Glynco, Georgia.

RIB concentrates its investigations on stores with questionable food stamp transactions. Its priority has been to conduct investigations of trafficking (the exchange of food stamp benefits for cash, generally at a discount rate of about 50 cents on the dollar) or sale of ineligible goods.

During FY2005, RIB conducted investigations of 4,709 firms nationwide. Approximately 39% (1,817) of these investigations documented evidence of FSP violations. Yearly food stamp redemptions for these 1,817 firms totaled \$125.42M. Of the 1,817 positive investigations, RIB investigators uncovered trafficking in 255 firms with the annual redemptions of \$24.5M.

Nationally, food stamp trafficking has been decreasing over time. The most recent estimates show that trafficking represents 2.5 cents of every benefit dollar.

In FY2005, RIB, in addition to ongoing investigative activity, conducted thirteen mini-task force investigative operations in: Miami, FL; Nashville, TN; Atlanta, GA; Tampa, FL; Charlotte, NC; Hattiesburg, MS; Charleston, SC; New York, NY; Dallas, TX; Phoenix, AZ; Little Rock, AR; Rockford, IL, and Alaska.



RIB Historical Statistics

Investigations

The number of investigations conducted by RIB in each of the last five fiscal years follows. A positive investigation is one in which an investigation reveals evidence of any program violation.

Fiscal Year	Total Stores Investigated	Total Positive RIB Investigations	Percentage of Total
2001	4,232	1,628	38.5%
2002	4,108	1,646	40.1%
2003	4,453	1,637	36.8%
2004	5,017	2,076	41.4%
2005	4,709	1,817	39%

Breakdown of Positive Investigations

Fiscal Year	Total Non-Trafficking Cases	Total Trafficking Cases	Trafficking Cases as Percentage of Positive RIB Investigations
2001	1,289	339	20.8%
2002	1,362	284	17.3%
2003	1,303	334	20.4%
2004	1,724	352	17.0%
2005	1,562	255	14%

Source: AIMS prior to 2005; STARS Management Activity Report 12/04/05

Electronic Benefit Transfer (EBT) Branch

The EBT Branch disseminates policy and resolves policy issues related to benefit issuance, including the implementation and operation of EBT systems. The EBT branch also reviews State agencies' Advanced Planning Documents, Requests for Proposals, and EBT system designs to ensure compliance with FSP EBT regulations prior to system acceptance and operation. In addition, the EBT branch provides State agencies with general EBT contract support. General contract support includes providing State agencies with direction, coordination, information, and technical support during EBT procurement, testing, and operational phases as well as supporting the transition from one EBT vendor system to another.

EBT is the system used to deliver food stamp benefits electronically to recipients and was implemented nationwide, as of June 2004. EBT first began in October 1984 with a demonstration project in Reading, Pennsylvania. In 1996, Welfare Reform legislation mandated all States implement an EBT system for food stamp benefit delivery by October 2002. The EBT Systems Interoperability and Portability Act of 2000 further required all States' EBT systems be interoperable by October 2002 so that recipients could use their EBT cards across State lines.

There are currently two types of EBT systems in operation: the online, magnetic stripe card system and the offline, smart card system. The online system works very similar to a debit card system. Instead of food stamp benefits in the form of paper coupons, recipients are issued an EBT card that can be used at any FNS authorized retail food store. Clients run their EBT card through a point-of-sale device at the

checkout counter and then enter their Personal Identification Number (PIN) in order to access their benefits to pay for the food purchase. The receipt from the EBT food purchase tells the recipient the balance in their EBT account for their next shopping trip. Ongoing benefits are directly posted through the State-administering agency to a household's account on a monthly basis. The main variation of the offline system is that benefits are loaded directly into a computer chip on the recipient's EBT card instead of onto an online accounting system that is linked to, but separate from, the card.

During 2005, only Ohio and Wyoming operated offline systems; however, Ohio switched to an online system in March 2006.

EBT Highlights

Anti-Fraud Locator using EBT Redemption Transactions (ALERT)

ALERT is a fraud detection decision support system designed to monitor and track electronically conducted authorized retail transactions conducted by Food Stamp Program (FSP) recipients. The ALERT system facilitates management of retailer Food Stamp reporting by providing transaction-level information to Federal and other personnel charged with the responsibility of FSP retailer management and compliance activities. The ALERT system initially scans all retailer transactions provided to FNS via EBT Processors.

EBT Disaster Response

The U.S. suffered the worst natural disasters in 2005 with Hurricanes Katrina, Rita, and Wilma causing over 1,000 deaths and tens of billions of dollars in damage in Louisiana, Mississippi, Alabama, Texas, and Florida. This was the first time that EBT systems were used on such a large scale to issue disaster food stamp benefits.

In Louisiana, nearly 500,000 households received more than \$400,000,000 in disaster food stamp benefits in the aftermath of Hurricanes Katrina and Rita. In September 2005, every state was allowed to issue one month of expedited food stamp benefits to evacuees of Hurricane Katrina. Disaster food stamp benefits from the State of Louisiana to Hurricane Katrina victims were transacted through EBT systems in nearly every state and the District of Columbia.

In Florida, over 650,000 households received in excess of \$269,000,000 in disaster food stamp benefits because of Hurricane Wilma. Florida's disaster EBT

system delivered food stamp benefits to more than two million people.

During many large-scale disasters, states often request FSP waivers from FNS as part of their Food Stamp Disaster Programs to make it easier for victims to receive disaster food stamp benefits. Among various waivers given to states affected by the 2005 Gulf Coast hurricanes, FNS relaxed the EBT key-entered transactions policy, allowed purchases of hot foods with food stamp benefits, and extended the length of time retailers could clear manual EBT vouchers.



EBT Highlights

2005 National EBT Director's Meeting

In late June 2005, 151 federal and state EBT staff and EBT contractor staff attended the 2005 National EBT Director's Meeting in Rapid City, South Dakota. Major topics at the meeting included conversion to a new EBT vendor, the future of WIC EBT, wireless technology and cost sharing at farmers' markets, future technologies and products, and payphone blocking.

Coupon Conversion

In 2004, the Food Stamp Program converted 100 percent to EBT in all States, including U.S. Territories and the District of Columbia. As a result, food stamp coupons are no longer produced and large coupon inventories have been destroyed over the past few years. Only three States, Ohio, Illinois and Wyoming, currently have coupons in stock. Ohio will destroy their remaining coupon inventory now that they have converted from an offline to an online EBT system.

Farmers' Markets

In 2005, over 100 farmers' market in 16 States used several alternative forms of EBT food stamp benefit delivery to bring fresh produce and food products to thousands of food stamp recipients. In addition to the various alternative projects, New York and California were equipping farmers with wireless terminals to use at their stalls.

With the advent of EBT and the elimination of paper coupons, farmers' markets needed

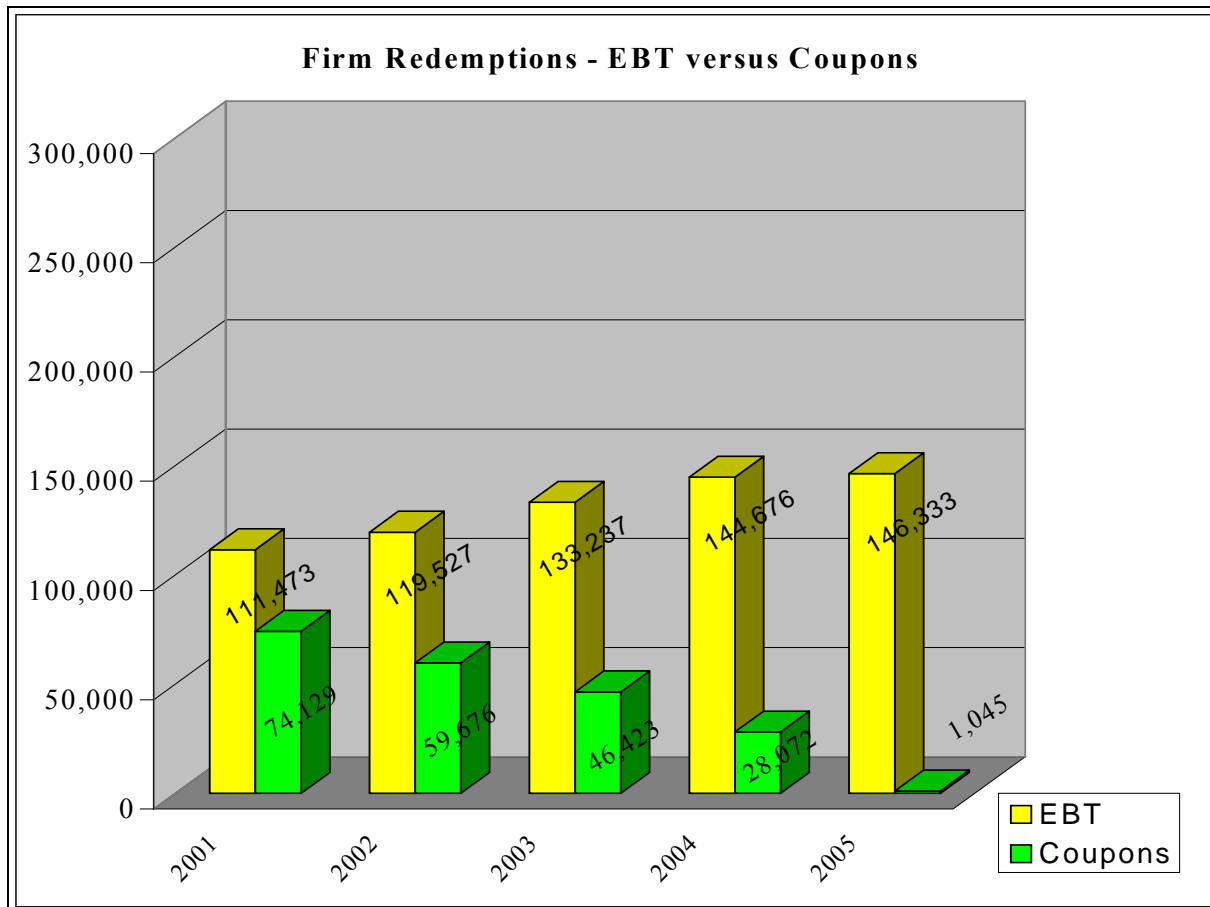
to find alternate ways to transact food stamp benefits within states' EBT systems to continue participating in the food stamp program. Conducting low dollar, high volume sales, a state's paper manual voucher process would be seen as too cumbersome and insecure for most farmers' markets to handle.

In 1998, the Hilo Market in Hawaii successfully introduced an alternative to paper manual vouchers, a paper scrip system. Today, more than 100 farmers' markets use scrip, tokens, and receipts to provide food benefits to recipients. To use an alternative system, recipients pass their EBT cards through a local point-of-sale (POS) terminal exchanging electronic food stamp benefits for scrip, tokens, or receipts which they can easily exchange at individual market stalls to purchase food.



EBT Highlights

As this chart shows, food stamp coupons are still in circulation. The number of firms redeeming only coupons dropped significantly from 18% in FY2004 to less than 1% of all authorized firms in FY2005.



*Some stores redeem both electronic and paper benefits.

Source: STARS Management Activity Report 12/04/05

Administrative Review Branch

Retail food stores and other eligible institutions that are the subject of certain adverse actions taken by an FNS field office can appeal for an administrative review of that action. Such appeals are received and processed by the Administrative Review Branch (ARB). Along with the branch chief, there are currently four Administrative Review Officers (AROs) designated by the FNS Administrator to conduct administrative reviews and make final determinations. The purpose of the review is to ensure that the field office action under appeal is consistent with the law and regulations governing the Program. AROs have the authority to reverse or otherwise alter any field office decision found to be in error or inconsistent with FNS policy. The decision is the final administrative action of the USDA and subject only to judicial review. Following are the actions that can be appealed:

(1) Denial of an application or withdrawal of authorization to participate in the Program;

- (2) Disqualification from the Program with certain exceptions;
- (3) Imposition of a monetary fine or Civil Money Penalty (CMP);
- (4) Assertion of a Fiscal Claim;
- (5) Denial of part or all of a claim submitted against FNS; or,
- (6) Forfeiture of all or part of a collateral bond.



Penalties for Violation of the Food Stamp Program



Penalties Include:

- ☐ **Permanent disqualification** when the owner or employees purchase or traffic in food stamp benefits, or for a third sanction.
- ☐ **Three to five year disqualification** for the sale of non-food items, such as alcoholic beverages or tobacco.
- ☐ **One year disqualification** for accepting food stamp benefits for payment of credit accounts.
- ☐ **Six month to three year disqualification** for the sale of non-food items, such as, but not limited to: soap, paper products, medicines, etc.

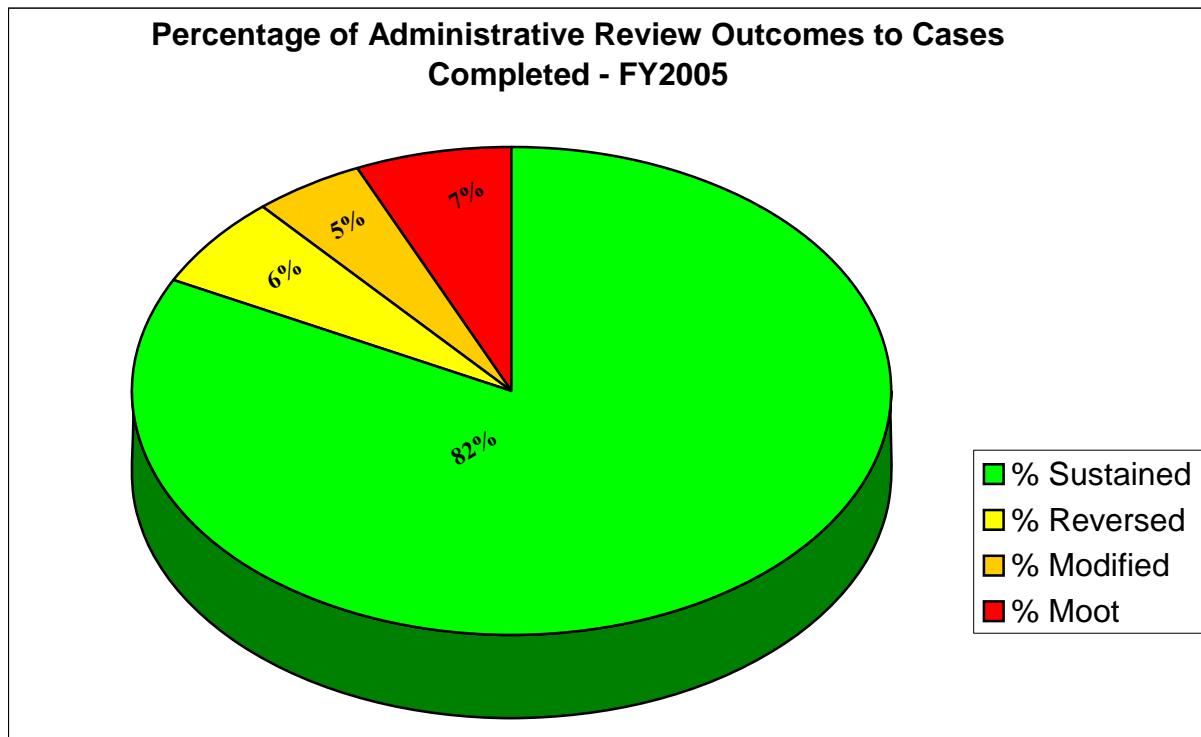
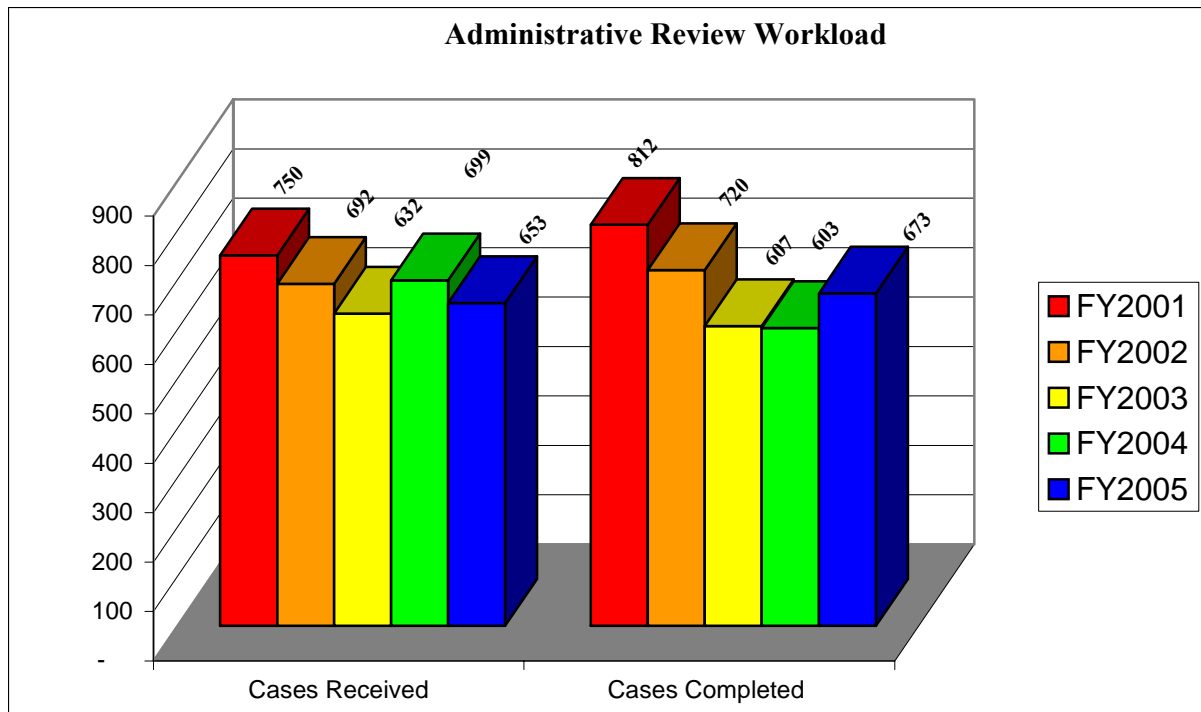


The Food Stamp Program is available to all eligible persons regardless of race, color, religion, sex, national origin, age, political beliefs or disability.
United States Department of Agriculture • Food and Nutrition Service
FNS 136 • Revised March 2002



Administrative Review Process

Administrative Review Workload and Outcomes



Source: 609-S and 611-S